

# Ride the Wave

YIELDS REPORT 2022



# Ride the Wave

Over the last few years and despite the pandemic, the holiday home market in the Mediterranean has steadily evolved from a promising real estate segment into the most dynamic and active sector of the real estate industry in this area.

For the sixth year, Algean Property has performed research across 30 popular destinations in the Mediterranean recording all the latest trends and prospects in the luxury holiday home market. Since 2019, when the latest comparable report by Algean Property was conducted, a lot has changed with the Corona virus pandemic altering people's lives, global markets, and entire economies being affected. Despite the pandemic, real estate prices have overall remained stable or even increased in value across the 30 locations under consideration, counter intuitively perhaps, as the tourism industry was amongst the most heavily hit sectors especially in 2020. Possible reasons for this are presented below.



Comparably, the 2019 findings with those of 2022 present a mixed narrative. Overall, across the 30 locations sale prices have increased and hence yields are lower compared to their 2019 levels, a trend that was already predicted by our previous report in 2019. The increased demand especially in luxury destinations and the luxury real estate segment of the market resulted in higher prices and lower yields. As the data indicates, demand across Mediterranean holiday destinations skyrocketed during the pandemic, with Greece, Spain and France leading the race. Yet, there are exceptions to this narrative with some locations experiencing small increases in yields and other experiencing a more substantial increase, mostly explained by rent figures growing faster than the sale price.

Economic factors (inflation and so far low interest rates) and changes in people's behavior and preferences (ex: changes in work habits due to the pandemic) have been the driving forces behind the trends observed since the start of the pandemic.

Given the low interest rates of the last years, a purchase of a luxury holiday home presents a great investment opportunity, with estimates reporting that 45% of customers are already buying their vacation property as a potential investment. Contrary to other asset classes (ex: equities, bonds etc.) the investor benefits from the increased future value, and at the same time "treats himself" with the acquisition of a luxury residence which can also serve his own use throughout the year. The necessity of the work-from-home model has also blurred the lines between primary and holiday homes. This has allowed many individuals to spend more time in their second home where they can work while enjoying the Mediterranean climate and lifestyle. As a result, classic Mediterranean holiday home markets and destinations are increasingly becoming "primary home markets."

While property prices are rising rents are also increasing, yet in most locations at a slower rate, resulting in a decrease in yields. This is supported by Eurostat's quantitative

findings which note that across years (2010-2021) and across EU countries sale price growth has outpaced growth in rents. For example, in Q3 of 2021 house prices were up 9.2% y-o-y while rents were up 1.2% y-o-y. With nearly half of the locations considered being in Greece, numerical data on Greek real estate indicates that from 2018-2021 residential property prices have increased from 10% to 30%, depending on location.

Our 2022 analysis shows that Mykonos, Paros and Santorini remain the leading destinations in the Mediterranean, further establishing their investment dynamics, even in the post pandemic holiday home market.

For the sixth time, **Mykonos**, with the region's comparative advantages (mild weather, beautiful seashores) and its powerful brand name is the top performing destination with an average gross yield of 7.4%. The increased demand explained above has resulted in a further increase in prices while rents have increased at a

slower pace. This explains the decrease in yields compared to 2019 (8.2%).

**Paros** (7.1%) is one of the destinations that was able to increase its yield compared to 2019 (6.5%). Although prices increased, rent growth outpaced sale's prices growth resulting in a higher yield, further closing the gap with Mykonos. Overall, Paros has been able to benefit from Mykonos's spillover effects with the islands being geographically near to each other. This has allowed for new investments and more luxurious projects being built, increasing sales price while the greater number of tourists and pent-up demand from the pandemic has allowed rents to rapidly grow.

**Santorini's** sale price and rents experienced a slight increase compared to 2019 but overall performance remained the same with 2019 (6.3%). **Skiathos** and **Tunisia** share the 4th and 5th spot with sale prices, rents and yields remaining unchanged compared to 2019 (6.0%). A qualitative disclaimer between Skiathos and Tunisia compared to the top 3 performers and even compared to destinations that offer a lower yield is the lower sample size and the slightly lower quality of houses. 6<sup>th</sup> spot is reserved by **Porto Heli** (5.3%) which was able to increase yields compared to 2019 (5.1%) as a result of a slight decrease in sale prices,





















whereas the **Dalmatian Coast** remained in the 7<sup>th</sup> spot with sales prices, rents and yields remaining unchanged compared to 2019 (5.1%). The top 10 destinations are completed by **Chalkidiki**, **Chania** and **Kefalonia** which all share the same yield of 4.8% with Kefalonia experiencing a significant increase in its yield compared to 2019 (4.1%) explained by rent growth outpacing sales price growth. The remaining 20 destinations recorded the following average gross yields: **Elounda** (4.6%), **Zakynthos** (4.6%), **Rhodes** (4.5%), **Montenegro Coast** (4.5%), **Corfu** (4.3%), **Nice** (4.3%), **Turkey - Mediterranean Coast** (4.3%), **Athens Riviera** (4.2%), **Marbella** (4.2%), **Turkey - Aegean Coast** (4.0%), **Mallorca** (3.7%), **Saint-Tropez** (3.7%), **Messinia** (3.6%), **Sardinia** (3.5%), **Tel Aviv** (3.4%), **Ibiza** (3.3%), **Cannes** (3.3%), **Capri - Amalfi Coast** (3.3%), **Paphos** (2.7%) and **Malta** (2.5%).

Alongside Paros, Kefalonia, Zakynthos, and Tel-Aviv are some other destinations that have stood out. Kefalonia and Zakynthos, both islands in the Ionian Sea, experienced a great increase in yields reflecting the growing popularity of tourism in the region which has also resulted in substantial investments across the hospitality sector (4- and 5- star hotels and upgrades of airports). More specifically, Kefalonia experienced a 17% increase

in its yield, from 4.1% (2019) to 4.8% (2022) whereas Zakynthos experienced a 21% rise in yields from 3.8% in 2019 to 4.6% in 2022. For Tel-Aviv, in addition to the arguments mentioned above, the appreciation of the Israeli Shekel compared to the Euro has also played a part in the growth of both sale prices and rents. On average sale prices increased 1,800 €/m<sup>2</sup> and rents increased 1,500 €/week. Given that both variables experienced strong growth, the overall yield increased slightly compared to 2019 (3.4% vs 3.3%). Capri - Amalfi Coast is another destination which experienced growth, especially in the rent/week variable, with 2022 rents per week being €1,000 higher than 2019. Sale prices increased slower, by 500 €/m<sup>2</sup>, and hence overall yields have increased from 3.1% (2019) to 3.3% in 2022.

An important disclaimer to the reported figures below is that, especially in the Greek real estate market, the list price can be approximately 10% above the final transaction price. If we account for this difference in prices, the true yields can be 0.5%-1% higher in absolute terms, compared to the figures reported. Higher sales prices lead to a larger difference (Mykonos yields increase from 7.4% to 8.3%) while lower sale prices, like Elounda are closer to a 0.5% difference in absolute terms between yields (4.6% vs 5.1%).



Country & Region	Residence Surface (m²)	Sale Price (€/m²)	Weekly Rental Rate (€)	Annual Rental Income (€)	Average Gross Yield
 Mykonos	250	7,750	12,000	144,000	7.4%
 Paros	250	4,750	7,000	84,000	7.1%
 Santorini	250	6,500	8,500	102,000	6.3%
 Skiathos	250	4,000	5,000	60,000	6.0%
 Tunisia	250	1,000	1,250	15,000	6.0%
 Porto Heli	250	4,500	5,000	60,000	5.3%
 Dalmatian Coast	250	4,750	5,000	60,000	5.1%
 Chalkidiki	250	4,500	4,500	54,000	4.8%
 Kefalonia	250	3,750	3,750	45,000	4.8%
 Chania	250	4,250	4,250	51,000	4.8%
 Elounda	250	5,500	5,250	63,000	4.6%
 Zakynthos	250	5,000	4,750	57,000	4.6%
 Rhodes	250	3,750	3,500	42,000	4.5%
 Montenegro Coast	250	3,500	3,250	39,000	4.5%
 Corfu	250	5,250	4,750	57,000	4.3%
 Nice	250	10,500	9,500	114,000	4.3%
 Mediterranean Coast	250	2,500	2,250	27,000	4.3%
 Athens Riviera	250	4,600	4,000	48,000	4.2%
 Marbella	250	6,250	5,500	66,000	4.2%
 Aegean Coast	250	3,000	2,500	30,000	4.0%
 Mallorca	250	6,750	5,250	63,000	3.7%
 Saint-Tropez	250	18,000	14,000	168,000	3.7%
 Messinia	250	4,000	3,000	36,000	3.6%
 Sardinia	250	8,500	6,250	75,000	3.5%
 Tel Aviv	250	11,000	7,750	93,000	3.4%
 Ibiza	250	8,250	5,750	69,000	3.3%
 Cannes	250	14,000	9,750	117,000	3.3%
 Capri - Amalfi Coast	250	12,250	8,500	102,000	3.3%
 Paphos	250	5,250	3,000	36,000	2.7%
 Malta	250	5,250	2,750	33,000	2.5%

The above analysis is based on more than 3,000 comparable properties, selected by the Algean Property research team. Each property features a minimum of 3 bedrooms, a private pool, and high quality fittings. Our assumptions are based on properties with an average area of 250 m2. The operational rental period is assumed at 12 weeks. The average gross rental yields are before expenses and taxes.

# Reasons to Buy Property in Greece

## Financial Incentives



### Greek Economy

- Ernst & Young → "Greece ranks for the first time among the 10 most attractive destinations for foreign investment, with 10% of the respondents mentioning Greece among the three most attractive countries"
- European Commission → Greece demonstrated an "earlier-than-expected recovery" from the pandemic
- Updated 2021 GDP growth forecasts, from 4.3% in July to 7.1% in November, with 2022 expectations at 5.2%
- Banking system → Gradual improvement since 2019 → Banks' Non-Performing Loans represented 15% of total loans in September 2021, compared to 36.5 % in June of 2019. The 15% is expected to fall to a single-digit number in 2022
- Greece's public debt management agency aims to repay part of the country's Bail-out debt earlier than expected
- Modernization of business practices, freeing the country from the very strong grips of bureaucracy, which was a deterrent of foreign investments. This digitalization and increased transparency has also improved the process of buying real estate. For example, Golden Visa applications can be made remotely, through the investor's local legal representative



### Tourism Industry

- 2021 tourism performance exceeded expectations with revenues for January-August recovering 50% of the pre-pandemic revenues, compared to the expected 40%
- January - August 2021 → Number of tourists that visited Greece recorded a 79.2% increase y-o-y
- Expectations for 2022 to match pre-pandemic 2019 tourism levels. September 2021 tourist arrivals amounted to 75% of September 2019 levels
- Increased spending → Expenditure per trip in the first seven months of 2021 exceeded respective 2019 levels
- Variety of locations with unexploited opportunities → Potential to develop new and upgraded tourism facilities



### Property Market

- Real estate market in 2021 showed strength → Housing investment for the first 9 months of 2021 showed an annual growth rate of 34.7% y-o-y
- Upgraded and newly developed properties being built → Increased construction activity in 2020 and 2021 → 26.8% y-o-y increase in number of building permits issued during the first 9 months (Jan - Sept) of 2021 whereas in Jan - Sept 2020, construction activity experienced a 15.5% increase y-o-y
- Competitive prices and lower cost of investing in Greek real estate compared to other Mediterranean destinations, with house prices still being 22% - 37% lower compared to 2007 pre-crisis levels
- Golden Visa for Greece program → One of the most popular investment visa programs in the EU, allows non-EU citizens to obtain immediate five-year residency for themselves and their immediate family members, by making an investment in Greece which dependent on the asset class, must match certain criteria
  - Real Estate purchase criteria → Property should be worth at least €250,000 → Lower threshold investment compared to similar programs offered by countries like Spain, Italy, France and Portugal. In Portugal and Spain the €250,000 price floor is set at €500,000, while France and Italy do not yet offer Golden Visa for passive investments in real estate. Cyprus' price floor for real estate investments was at €2,000,000 but as of late 2020 the Golden Visa for Cyprus program is no longer available
- Overall, low transaction costs (legal fees, real estate agents) and a concrete effort by the government to reduce bureaucratic requirement



### Tax Incentives

- A new legislation introduced in 2019, allows individuals who invest a minimum of €500,000 in real estate, business or legal entities to transfer their tax residency in Greece. Investors will benefit from a €100,000 annual flat tax rate, on worldwide income from any 57 countries with which Greece has a tax treaty, regardless on the amount
- Foreign pensioners who transfer their tax residency in Greece and stay in the country for more than six months per year benefit from a 7% flat tax rate on their pension and any income earned abroad
- Foreign employees and self-employed individuals who will come, stay and work in Greece and transfer their tax residency here gain exemption from income tax for 50% of their income acquired in Greece
- Overall adoption of a lower tax regime by the new government. Corporate & Income taxes have been decreased. Property taxes have also been lowered (ex: Suspension of VAT on buildings, construction permits and unsold properties from 2006 onwards, and decrease of the Uniform Real Estate Property tax)

# Reasons to Buy Property in Greece

## *Destination - Lifestyle - Infrastructure*



### Destination

- Central location with the country lying at the crossroads of three continents allows for easy and direct access from most parts of the world
- Favorable climate with more than 300 days of sunshine a year
- Largest Mediterranean Coastline, at approximately 15,000 km (longer than the coastlines of Italy, Spain and Cyprus combined)
- Unique geographical diversity → Over 4000 named mountains, over 2000 islands of which 227 are habitable, approximately 55 lakes and 21 major rivers, while 30.3% of the land area is covered by forests



### Lifestyle

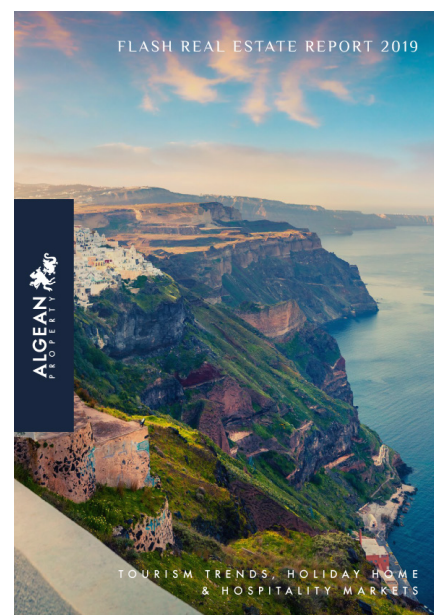
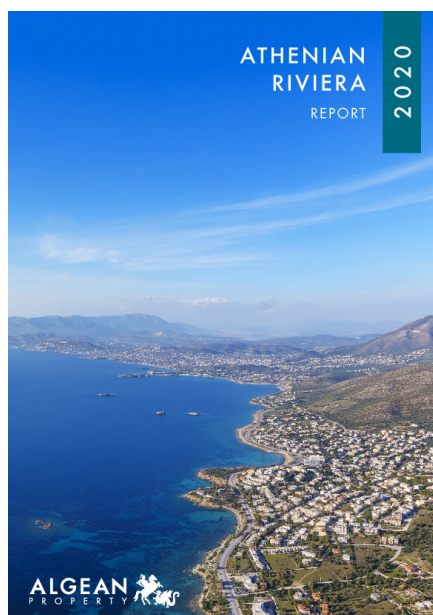
- Al fresco living, social and healthy
- Relatively low cost of living (about 20% lower than the UK)
- Over 500 archeological sites, 2/7 wonders of the ancient world, 18 UNESCO sites and more than 250 museums
- Distinguished Mediterranean cuisine with more than 100 PDO (Protected Designation of Origin) and PGI (Protected Geographical Indication) products
- English is widely spoken, foreign newspaper and television are available and internet covers 100% of the Greek inhabited territory



### Infrastructure

- More than €10 billion invested across projects in 2021 and 2022
- 45 airports, of which 15 are International, serve an adequate number of local and international flights
- More than 140 ports with an array of well serviced ferry connections
- 62 marinas for small and large yachts
- A modernized motorway network with 10 main routes throughout the Greek mainland and Crete
- 8 professional golf courses and innumerable sport, watersport and spa facilities
- 150 award winning restaurants, thousands local taverns and numerous beach bars, cafes and open-air clubs

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